

**STATEMENT OF REP. SUE KELLY
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OVERSIGHT & INVESTIGATIONS
HEARING ON THE FINANCIAL ASPECTS OF
INTERNET GAMING:
GOOD GAMBLE OR BAD BET?**

July 12, 2001; 2:00 p.m.; 2128 Rayburn

We convene here today to listen to testimony from two panels of distinguished witnesses about a timely, but controversial, topic: gambling on the Internet.

In a few short years, the Internet gambling industry has exploded. According to an Internet gambling committee of the National Association of Attorneys General, there were less than 25 such sites on the Web in the mid-1990s. Today, Bear Stearns, one of the nation's leading securities firms, estimates that there are between 1,200 and 1,400 e-gaming Web sites. Bear Stearns projects that as the industry continues to grow, such Internet sites could generate an estimated \$5 billion in revenues by 2003. That figure approximates roughly half of last year's casino earnings in the State of Nevada.

Internet gambling presents a complex set of legal, financial, technical, and social challenges. On the legal front, it is believed that most forms of interstate Internet gambling are prohibited by Federal law under the Interstate Wire Act in Section 1084 of Title 18 of the U.S. Code. For years, authorities have used the Wire Act to combat illegal betting by phone or other wire communications. Now, with the advent of Internet technology, the Wire Act and other related provisions of Federal law also stand as a legal obstacle against the establishment of Internet casinos on U.S. soil.

State laws have similarly banned Internet gambling operations, and we will hear today from New Jersey's Director of Gaming Enforcement about that State's efforts to sue offshore casinos to prevent them from operating within New Jersey's borders. However, some State laws against Internet gambling may be about to change if the legislation enacted in Nevada last month is any indication.

The most serious offenders in the Internet gambling arena are the virtual casinos operating offshore, beyond the reach of U.S. law. One estimate puts the number of foreign jurisdictions authorizing or tolerating Internet gambling at fifty. This includes not just the well-known bank secrecy jurisdictions of the Caribbean but other countries like Australia. The lure of lucrative licensing fees and the possibility of sharing in gambling receipts are proving to be powerful incentives to enter the Internet gambling business. Antigua and Barbuda have reportedly licensed more than 80 Internet gaming Web sites already, charging a \$75,000-\$85,000 licensing fee for a sports betting site and \$100,000 for a virtual casino. A report prepared for the South African government, as reported in the Bear Stearns study, revealed that Internet gaming revenues could yield up to \$140 million in foreign exchange.

While Internet gambling represents a jackpot for such foreign jurisdictions, it is a wheel of misfortune for far too many Americans who struggle with gambling addictions and the loss of jobs, wrecked marriages, and destroyed finances that often follow. With a click of a computer mouse, any American armed with a credit card can have instant, anonymous access to round-the-clock gambling from the privacy of their homes. Students on college campuses – with nearly unchecked access to credit cards issued by eager credit card companies – have already been known to rack up large gambling debts. As we will hear today, all of the social hazards associated with problem gambling at brick-and-mortar sites are of equal, if not greater, concern when it comes to on-line gambling.

Furthermore, Internet gambling poses a serious problem to our youth. In the areas in which gambling is legal, strict laws have been enacted to ensure our children are prohibited from participating. In many homes the children are far more computer literate than the parents, what possibly would stop a child from placing a bet with their parent's credit card? Since our society has made a conscious decision to keep children from this activity we must take steps to ensure that online casinos do not victimize our children. The issue of what can we do to protect children from these sites will be one of my first questions for our panelists today.

In addition to the social problems associated with Internet gambling, U.S. authorities warn that Internet gaming offers a powerful vehicle for laundering funds from illicit sources as well as to evade taxes. A 2000-2001 Financial Action Task Force (FATF) report on money laundering typologies indicates that there is evidence in some FATF jurisdictions that criminals are using the Internet gambling industry to commit crime and to launder the proceeds thereof. The use of credit cards and the placement of sites offshore make locating the relevant parties, gathering the necessary evidence, and prosecuting those parties difficult if not impossible.

Despite the many problems associated with Internet gambling, there is clearly money to be made in this business, and U.S. firms are increasingly eager to claim their share. As we will hear today, U.S. credit card companies, software firms, public relations and advertising companies, and other U.S.-based enterprises are already knee-deep in the Internet gambling business. Within the last year, two U.S. companies – MGM Mirage and Harrah's – have announced new on-line play-for-free or play-for-prizes operations that are but a short step away from actual Internet gambling. In addition, as noted earlier, Nevada recently became the first state in the nation to enact legislation to open the door to Internet gambling. How that law will survive a challenge under Federal law remains to be seen. Nevertheless, it is clear that absent strong Congressional action, the United States may be poised itself to head down the slippery slope of Internet gambling.

In 1999, the Congressionally-mandated National Gambling Impact Study Commission unanimously recommended a Federal ban on Internet gambling. Testifying at a hearing before the Banking Committee last Congress, Commission Member Richard Leone explained that unlike the regulatory regimes that have accompanied the expansion of other forms of gambling in the United States, the emergence of Internet gambling has occurred with no regulatory structure. As a result, the current framework of Federal and State laws governing gambling can be easily circumvented. The Commission noted that the problems associated with Internet gambling include: (1) the potential for abuse by gambling operators who can alter, move, or entirely remove sites within minutes; (2) the ability of gambling operators or computer hackers to tamper with gambling software to manipulate games to their benefit; and 3) the provision of additional means for individuals to launder money derived from criminal activities.

The Commission concluded that because Internet gambling crossed state lines, it would be difficult for States to effectively control it and that Federal legislation was the only recourse. The Commission further rejected the argument that Internet gambling could be effectively regulated, and recommended, instead, a ban on any Internet gambling not already authorized by law, and without new or expanded exemptions. Although the States do not normally welcome Federal legislation on such matters, the National Association of Attorneys General, speaking on behalf of State Attorneys General, has indicated strong support for Federal action.

In response to the Commission's recommendations and testimony from other interested parties, the House Banking Committee approved legislation last year that would have tackled the problem of Internet gambling by prohibiting gambling operations from accepting credit cards, checks, or other bank instruments in connection with illegal Internet gambling. The Judiciary Committee also addressed the legal aspects of Internet gambling under separate legislation, but the 106th Congress adjourned before meaningful Internet gambling legislation could be enacted. I fear now that such failure is being misinterpreted as a green light to those in U.S. industry who are interested in launching on-line gambling operations of one type or another.

In closing, let me say that the purpose of the hearing today is one of oversight. It will help us assess what has happened in the Internet gambling arena since Congress examined the issue last year. It is my intent, however, not to stop at oversight, but to work with the legislative Subcommittees under this Committee to support appropriate legislative action in the months ahead. This issue can no longer simply be left to random events and foreign jurisdictions. It is time for Congress to address these issues and identify an appropriate public policy response.